STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion -vs- Commonwealth Edison Company Investigation of Rate Design Pursuant to Section 9-250 of the Public Utilities Act.	: : : : : : : :	**Docket No. 08-0532**

SUMMARY OF POSITION OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

JOHN C. FEELEY
CARMEN L. FOSCO
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
jfeeley@icc.illinois.gov
cfosco@icc.illinois.gov

Counsel for the Staff of the Illinois Commerce Commission

December 17, 2009

Table of Contents

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion -vs- Commonwealth Edison Company Investigation of Rate Design Pursuant to Section 9-250 of the Public Utilities Act.	: : : : : : : :	**Docket No. 08-0532**

SUMMARY OF POSITON OF THE

STAFF OF THE ILLINOIS COMMERCE COMMISSION

Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to direction of the Administrative Law JudgeSection 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission's ("Commission"), respectfully submits its Summary of Position in the above-captioned matter.

I. ISSUES

A. Overview/Summary

Based on the evidence in this case, Staff supports Commonwealth Edison Company's ("ComEd") cost of service study incorporating Staff's proposed revisions as an appropriate foundation for ratemaking. This revised study incorporates the Company's proposed method for identifying the costs for primary and secondary service; Staff's proposed coincident peak (CP) allocator for primary lines and substations; and ComEd's revised services allocator that corrects deficiencies indentified by Staff.

Staff points out however, that while ComEd presents the most reasonable method of identifying primary and secondary costs in this docket, the record has identified a number of deficiencies in the Company's approach. That is why Staff recommends that the Commission approve Staff's proposal to convene workshops within three months of the final decision in this case to identify ways in which the accuracy of the Company's cost of service studies can be improved. The workshops would be jointly convened by Staff and ComEd; however all interested parties would jointly decide what issues to explore in the workshop process and how many workshops sessions would be held.

If the Commission decides to develop a new set of class revenue allocations in this docket, it should adopt an alternative approach that more fairly recognizes the contribution of customer classes to cost recovery.

B. Separation of Primary and secondary Costs

Staff witness Lazare testified that the centerpiece of ComEd's filing is the presentation of separate costs for primary and secondary service in the cost of service study. Staff Ex. 1.0, p. 5. He explained that the Company also estimates the number of primary and secondary customers so that customers taking service at the primary level are allocated a share of only the primary component of these costs while secondary level customers receive both primary and secondary costs. Staff Ex. 1.0, p. 6.

Mr. Lazare testified that, as a starting point for its analysis, ComEd defines primary service as service that ranges from 4 kV to below 69 kV of service. Service below 4 kV is considered secondary service (ComEd Ex. 1.0, pp. 14-15) and service at 69 kV or above is separately identified in the Cost study. Staff Ex. 1.0, p. 7.

Mr. Lazare raised an initial concern with whether 4 kV is the proper dividing line between primary and secondary service. He explained that ComEd witness Alongi justifies the 4 kV threshold for primary service "on his nearly 35 years of experience with ComEd and ComEd's definition of primary distribution systems in its General Terms and Conditions." ComEd contends that "a primary voltage is generally used to distribute electricity along public property, road right-of-way or easements to relatively larger numbers of retail customers over longer distances with fewer electrical energy losses and less voltage drop as compared to what can be achieved with secondary voltages." Staff Ex. 1.0, p. 7. The Company's discussion indicates to Mr. Lazare that there is no hard and fast dividing line between primary and secondary voltages, but rather the separation between the two is based on judgment. He noted that ComEd does not cite any general industry standard or principle behind its definitions which also suggests this is a matter of judgment. Staff Ex. 1.0, p. 8.

Mr. Lazare testified that in assessing the reasonableness of the Company's definitions, a key consideration is when were those definitions developed. He found that ComEd's definition of primary service as 4 kV and above predates the current proceeding because it is embedded in the Company's General Terms and Conditions which have been in effect for some time. Thus, it appeared to him that this is the definition of primary service which ComEd has traditionally employed and it should apply in this case. Staff Ex. 1.0, p. 8.

Mr. Lazare recognized that the Company has encountered a number of challenges in differentiating between primary and secondary service costs for its cost of service study in this case, the most important problem being a lack of data. ComEd has not previously "recorded on its books gross plant in a manner that distinguishes between the costs of primary and secondary facilities." ComEd Ex. 1.0, p. 15. So the Company had to employ alternative means of distinguishing between the two sets of costs. The potential alternatives include: (1) direct observation of the system to identify primary and secondary components that could be extrapolated to the system as a whole; (2) informed judgments about how costs are differentiated between primary and secondary components; and (3) some combination of the two. Staff Ex. 1.0, pp. 8-9.

Mr. Lazare explained that the method ComEd adopted combined a review of existing plant data (as of September 30, 2008) and the use of "engineering judgment" when needed to estimate the primary and secondary components of distribution costs. ComEd Ex. 1.0, p. 16. He noted that the Company stated that this engineering judgment "consists of the consensus view among ComEd's New Business Engineering department, Capacity Planning department, Retail Rates department, Asset Information and System Policy department, and Plant Accounting department based upon the readily available information and combined experience of the individuals from each department." Staff Ex. 1.0, p. 10.

Staff witness Lazare testified that the judgmental process is difficult to follow because most of the employees in various Company departments who provided their engineering judgment for the cost analysis are not testifying in the case or identified. Thus, the regulatory process must rely on the understanding of Mr. Alongi about the evidence that was considered and how that evidence was used to produce the engineering judgments that support the proposed differentiation of primary and secondary costs for the ECOSS. Staff Ex. 1.0, p. 10.

Staff's understanding is that the Company's first step in its analysis is to identify which cost accounts can be separated into primary and secondary components. Company witness Alongi indicated the analysis would be limited to four accounts:

- 364 – Poles, Towers and Fixtures
- 365 – Overhead Conductors and Devices
- 366 – Underground Conduit, and
- 367 – Underground Conductors and Devices (1.0, p. 16)

The Company subsequently modified this conclusion to also include $4,723,630 of costs in Account 361, Structures and Improvements as secondary costs. Staff Ex. 1.0, p. 11.

Staff had an initial concern that this list did not include any transformer costs which were collectively classified as primary only. The Company justified this approach by arguing that it "used the simple guiding principle that the assignment of a transformer to primary versus secondary is determined by the voltage of the source-side of the transformer, not the load-side of the transformer." ComEd went on to provide the example of "a transformer that transforms a source-side voltage of 12,470 volts to a load-side voltage of 120/240 volts, is assigned to primary because the source-side voltage of 12,470 volts is a ComEd primary distribution voltage." Staff Ex. 1.0, p. 12.

Staff had concerns with this argument because even though the incoming voltage in the preceding example is primary, it steps down to secondary voltage upon

leaving the transformer. Since the exiting voltage is secondary, the transformer can only serve secondary customers and from that standpoint it would be unreasonable to associate transformers with primary service. Staff Ex. 1.0, pp. 12-13.

However, additional information that was presented in ComEd's rebuttal testimony led Staff to reconsider its argument that transformers should be broken down into primary and secondary components. That information pertains to the number of customers that receive electricity at the primary level. According to ComEd's estimates approximately 300 customers (other than high voltage) actually receive power at the primary level while all other customers (excluding high voltage customers) receive power at the secondary level and therefore have their power transformed from a primary down to a secondary level. So, if virtually all ComEd customers require transformers to step their power down from the primary to the secondary level, it is not clear to Staff what would be the impact of dividing transformer costs into primary and secondary components.

Staff's position is that in this situation, it would not be a useful exercise to divide these costs into primary and secondary components. Instead the approximately 300 customers who do not require such transformation should be identified and they should receive a downward rate adjustment reflective of transformation cost savings. The remaining 3.7 million customers requiring transformation down to the secondary level should pay rates that reflect an allocation of transformer costs.

Staff pointed out in its testimony and briefs that in identifying primary and secondary costs for Account 364 – Poles, Towers and Fixtures, ComEd makes a number of assumptions to differentiate between the primary and secondary level costs. All steel poles as well as all other poles above 50 feet are assumed to serve primary voltages only and the associated costs are assigned accordingly. The Company assumes that wood poles 50 feet in height or less carry both primary and secondary conduit and allocates the associated costs by applying four different assumptions in various areas about the incidence of secondary service on poles of this height, ranging from 90% down to 10% and resulting in the conclusion that 57% of these poles contain secondary facilities. ComEd Ex. 1.5, p. 4 of 10. The only explanation for these assumed percentages is that they are "based on engineering experience". *Id.* Staff Ex. 1.0, p. 15.

Mr. Lazare went on to explain that the costs for these poles that are assumed to contain both primary and secondary facilities are allocated 50/50 between primary and secondary service. Since 57% of wooden poles 50 feet in height or less are assumed to have secondary costs, the Company thereby considers 28.5% of the associated costs as secondary. The Company justifies this 50/50 allocation on the basis of "engineering judgment". ComEd Ex. 1.0, p. 18. Staff Ex. 1.0, pp. 15-16.

Mr. Lazare explained that the difficulty lies in assessing this engineering judgment. ComEd does not provide much in the way of explanations beyond statements that either "engineering experience" or "engineering judgment" was employed. This makes it difficult to reach a conclusion concerning the reasonableness of ComEd's approach. When, for example, the Company assumes that 90% of the wood poles 50 feet or less in the Maywood region contain secondary facilities based on "engineering experience", it is difficult to independently assess whether that figure is too low or too high. The same holds true for the Company's 50/50 allocation of costs for applicable poles to primary and secondary on the basis of "engineering judgment". Consequently,

Staff cannot conclude whether the assignment of 28.5% of the costs for wood poles 50 feet or less to the secondary level is too high or too low based on the evidence provided. Nevertheless, the Commission requires that the secondary component of distribution costs be indentified for this proceeding and Staff has not identified any alternative to the Company's approach that it considers more reasonable. Staff Ex. 1.0, pp. 16-17.

Staff further testified that similar issues arise for the Company's differentiation of costs in Account 365 – Overhead Conductors and Devices between primary and secondary components. Staff Ex. 1.0, pp. 17-18. Staff understands that the Company performed two separate analyses; one for the City of Chicago and another for the remainder of ComEd's service territory. In Chicago, the Company has sufficiently detailed records to identify the length of wire devoted to primary and secondary voltages. The data indicates that approximately 26.4% of open wire within the city serves secondary loads. So 73.6% of open wire in Chicago was allocated to primary service. ComEd Ex. 1.0, pp. 18-19. However, similar plant data is not available outside Chicago, so the Company judged that "based on the presence of fewer open wire installations, 85% of the wire outside the City of Chicago is used for primary facilities. ComEd Ex. 1.0, p. 19.

Mr. Lazare testified that he had more confidence in the allocations of Overhead Conductors and Devices between primary and secondary voltages for Chicago than for the remainder of ComEd's service territory. He explained that the Chicago allocations appear reasonable to him because they are based on plant records which provide direct data on the incidence of primary and secondary wire and the relative share of the two provides a basis for identifying primary and secondary costs. The allocations outside Chicago he found difficult to assess since the only justification for the Company's numbers is Mr. Alongi's understanding of "the presence of fewer open wire installations" outside Chicago. How these general statements translate into a specific allocation of 85% of wire to primary and 15% to secondary outside Chicago is not clear to Mr. Lazare. Staff Ex. 1.0, p. 18.

Mr. Lazare went on to testify that the same problem arises for Account 366 – Underground Conduit allocated between primary and secondary voltages. Staff Ex. 1.0, pp. 18-19. ComEd was able to rely on plant records for Chicago and found that 5.1% of the conduit in the City contained secondary facilities. Lacking comparable data outside the City, ComEd assigned 1.0% of the conduit there to secondary based on the argument that "significantly fewer underground secondary distribution systems are in conduit outside the City of Chicago." ComEd Ex. 1.0, pp. 19-20.

Again, while existing records provide a basis for the allocation of costs within the City, it is not clear to Mr. Lazare how Mr. Alongi's understanding that "significantly fewer underground secondary distribution system are in conduit" elsewhere translates into specifically assigning 1.0% of that conduit to secondary. Staff Ex. 1.0, pp. 20-21.

Mr. Lazare noted in his testimony that in differentiating costs for Account 367 – Underground Conductors and Devices between primary and secondary voltages, the Company first examined the specific descriptions of individual equipment in this account. Equipment identified as "Bus-Manhole", Cable-Secondary-Buried" and "Cable-Secondary-In-Duct" was assigned to secondary with virtually all remaining unitized costs in this account considered primary. Non-unitized costs within the account for a

distribution center were assigned to primary and other non-unitized costs were allocated between primary and secondary consistent with previous allocations. ComEd Ex. 1.0, p. 20. Staff understands that these allocations are facilitated by plant records which identify certain equipment as either primary or secondary. For the accounts that were allocated, the issue remains concerning the reasonableness of the Company's engineering judgments. Staff Ex. 1.0, pp. 19-21.

In sum, Staff's understanding is that the Company uses a variety of direct assignments and allocation methodologies to determine the primary and secondary components of these accounts. While some approaches appear straightforward, others incorporate varying assumptions. This is particularly true for those allocations that depend on engineering judgments. For example, when asked to provide all arguments relied for the estimate that 57% of wooden poles 50 feet or less in height contain secondary facilities, the Company stated that, "[p]ole counts by region were extracted from CEGIS, to which engineering judgment was applied to estimate the percentage of poles by region that may have secondary facilities attached thereto." Mr. Lazare explained that what that engineering judgment consisted of and whether it was reasonable cannot be determined from the level of information provided. Staff Ex. 1.0, p. 20.

Mr. Lazare went on to testify that when asked to provide all arguments supporting the 1.0% figure for underground conduit outside Chicago allocated to secondary service, the Company stated, "[t]ypically, ComEd would only install secondary conduit systems in central downtown districts where a secondary network would serve customers in the central district. Outside the City of Chicago there are fewer secondary networks and consequently fewer conduits with just secondary distribution systems, therefore the amount was estimated to be 1.0%." How the Company transitioned from its general conclusion to specific estimate for secondary distribution costs is not explained. Staff Ex. 1.0, pp. 20-21.

Nevertheless, despite these deficiencies, Staff is unable to identify an alternative methodology that would produce more reasonable allocations than the Company proposes. Therefore, Staff finds the Company's proposed approach the most reasonable method available to allocate system costs between primary and secondary voltages. Staff Ex. 1.0, p. 21.

Mr. Lazare further testified that the next step in allocating primary and secondary costs is to determine the number of primary and secondary customers on ComEd's system. Those customers identified as primary customers are allocated only primary costs while secondary customers are allocated both primary and secondary costs. The challenge in identifying primary and secondary customers is that ComEd's records do not distinguish between the two. As a result, an alternative path must be found to separate customers into these two categories. Staff Ex. 1.0, p. 21.

Mr. Lazare's understanding is that, as a first step, ComEd assumes that all customers with demands greater than 400 kW receive service directly from a transformer and therefore bypass the secondary distribution system. For remaining customers, ComEd queried its billing system to determine how many are served from a transformer that other accounts do not share, the idea being that customers directly served from a transformer bypass the secondary distribution system and thereby fall into the primary camp. ComEd Ex. 1.0, pp. 20-21. Staff Ex. 1.0, pp. 21-22.

The Company then sought to identify the number of multifamily residential customers who could be considered primary customers. These are customers who reside in larger apartment buildings that receive service directly from a transformer and thereby bypass the secondary distribution system. ComEd contends that these customers can be identified because they have a unique set of meters. So the Company used the number of these meters in service as a proxy for the number of multi-family customers receiving primary service. ComEd Ex. 1.0, p. 21. Staff Ex. 1.0, p. 22.

He further noted that ComEd encountered more difficulty in dividing lighting customers between primary and secondary service. The Company indicated that most lighting customers are connected to the secondary system but some are directly connected to a transformer and thereby should be considered primary. To identify this group, the Company first assumed that all metered dusk to dawn accounts contain sufficient loads to make them primary customers. ComEd then sought to identify additional lighting customers that are served by a transformer and therefore bypass the secondary distribution system. The Company assumed that transformers not specifically assigned to other customers on the system must directly serve lighting customers. This assumption was used to adjust the number of primary lighting customers upwards. ComEd Ex. 1.0, pp. 21-22. Staff Ex. 1.0, pp. 22-23.

Mr. Lazare testified that again, the Company's assumptions are difficult to assess. For example, the assumption that customers directly associated with a transformer are in fact, bypassing the secondary system and receiving service at the primary level cannot be corroborated. For residential customers in larger apartment buildings, it is difficult to test the Company's assumption that the meter type provides a fail-safe method of determining whether they are receiving primary or secondary service since no corroborating evidence was provided. Staff Ex. 1.0, pp. 23-24.

He explained that a similar problem exists concerning ComEd's assumption that transformers not assigned to other customers must, by default, be serving lighting customers. The Company indicates that this is the only possible explanation for these transformers. Staff does not have any independent evidence to support or disprove this argument. Staff Ex. 1.0, pp. 23-24.

Thus, it is difficult to assess the reasonableness of ComEd's method of identifying primary and secondary customers. Nevertheless, Staff has not identified any alternative approach that would produce better results. Thus, Staff considers the Company's approach to be the most reasonable method in this case of identifying primary and secondary customers on the system. Staff Ex. 1.0, p. 24.

However, Mr. Lazare testified as to additional problems with ComEd's analysis. One is that the Company has not actively reviewed studies of primary and secondary costs prepared by other utilities. Staff Ex. 1.0, p. 24. According to the Company, "ComEd is aware of and has briefly reviewed some of the primary/secondary analyses performed for the Ameren Utilities. ComEd has not reviewed any other primary/secondary analyses for any other utility for the purposes of performing its primary/secondary analysis." A review of existing studies might enable the Company to learn from the experience of other utilities in this area and avoid some of their mistakes. Furthermore, a comparison of the Company's method with the approach taken by other utilities would make it easier to determine whether that the Company has adopted the

most reasonable method of identifying primary and secondary costs. Staff Ex. 1.0, pp. 24-25.

A second concern is that the Company relied solely on engineering judgment for assumptions about primary and secondary costs and made no physical inspections of facilities to verify the reasonableness of those assumptions. While the Company could not be expected to inspect its entire system, some visual analyses would enable ComEd to test the validity of certain engineering assumptions that drive its analysis of primary and secondary costs. Staff Ex. 1.0, p. 25.

In its initial brief Staff set forth that the Company's discussion of its analysis in rebuttal demonstrates the need to use visual inspections in the analysis of primary and secondary costs. In its rebuttal, ComEd discussed some follow-up efforts it undertook to test engineering assumptions underlying its study of primary and secondary costs. For example, the Company performed a limited test of its assumption that all multi-family customers with 120/208 volt meters are primary. The Company analyzed five heating and fifteen non-heating residential customers possessing such meters and found three of the fifteen non-heating customers were, in fact, secondary customers. As a result, the Company has revised downward its estimate of the percent of multi-family customers with 120/208 volt meters receiving primary service from 100% to 82.4%. ComEd Ex. 6.0, pp. 25-26.

Staff also set forth in its initial brief that ComEd performed a limited test of its assumptions concerning the percentage of wooden poles with secondary facilities. As a result, the Company found it necessary to revise its estimates of secondary facilities for wooden poles 50 feet or lower and above 50 feet as well. ComEd Ex. 6.0, pp. 30-31.

These examples demonstrated to Staff the limitations of using engineering judgments alone to identify primary and secondary costs on the ComEd system. Staff argued in its initial brief that there is a clear need to expand the scope of visual inspections to test those judgments and produce an accurate analysis of primary and secondary costs.

Finally Mr. Lazare noted in his testimony that ComEd's analysis is not consistent with the Commission's initial understanding of the primary/secondary issue. The Commission presented the following definition of primary service in its Final Order for Docket No. 07-0566 accordingly:

> Some customers take electric service at high voltage only. These are primary customers. They comprise .2% of customers, yet they represent 20% of the system's peak demand.

Order, 07-0566, September 10, 2008, p. 206. The Company in this case has presented a much broader definition of primary service that reaches down to 4 kV of service and includes customers in all classes, even the residential class. Since the Company's analysis is based on its longstanding definition of primary service it appears to be responsive to the Commission Order in this case, it should be employed until evidence is presented in the future to demonstrate why an alternative definition is more reasonable. Staff Ex. 1.0, pp. 25-26.

1. IIEC's Alternative Approach

Staff's position is that the IIEC has presented a flawed alternative method of separating primary and secondary costs that should not be used for allocating the Company's cost of service.

Staff's understanding of the IIEC approach is that IIEC witness Stowe defines primary service as receiving power at a primary voltage and secondary service as receiving power at a secondary voltage. IIEC Ex. 2.0, p. 4. Primary customers, as defined by IIEC, do not require the services of a utility transformer to step down their voltage to a secondary level, but instead use their own equipment for any transformation of voltages down to secondary levels. IIEC considers all remaining customers receiving power at lower voltages to be secondary customers. Staff Ex. 2.0, p. 2.

Staff recognizes that conceptually, it is difficult to quarrel with IIEC's notion that primary service means receiving power at a primary voltage level and not sharing cost responsibility for the Company's network of transformers which step down voltages to secondary levels. Nevertheless, Staff's position is that IIEC's definition does not appear to be useful in determining responsibility for ComEd's network of secondary distribution wires. In particular, it would fail to count the numerous secondary customers identified by ComEd who bypass the Company's secondary distribution network and receive service directly from a transformer. Under the IIEC's definition, these customers would be lumped together with other secondary customers and be allocated the costs of a secondary system they do not use. Staff Ex. 2.0, pp. 3-4.

Mr. Lazare further testified that under the IIEC's definitions, the information provided by ComEd, if accurate, would restrict primary service to approximately 300 ComEd customers and classify everyone else as secondary customers. Consequently, there may not be much change in the allocation of distribution costs among customer classes under the IIEC's proposed definitions and the role of the primary and secondary cost analysis in the embedded cost study will be diminished. Staff Ex. 2.0, pp. 4-5.

Mr. Lazare testified there are also problems with IIEC's proposed method of identifying primary and secondary plant. The IIEC contends that ComEd's distribution system consists of three sub-systems. One part serves primary customers only; a second serves secondary customers only; and the third serves both primary and secondary customers. The IIEC argues that customers should only pay for those sub-systems that they actually use. IIEC Ex. 2.0, p. 5.

Staff testified that the problem is that the IIEC does not indicate the relative sizes of these three sub-systems. This makes it difficult to evaluate whether each of the sub-systems is meaningful from a cost-causation standpoint and to understand how Mr. Stowe's breakdown of the distribution system serves the cost allocation process. Staff Ex. 2.0, p. 5.

Mr. Lazare further testified that despite this data shortfall, the IIEC does contend that the secondary system comprises a larger share of the distribution system than estimated by ComEd. That is because the IIEC's definition of the secondary sub-system includes the costs of "multi-phase primary feeder circuits, single-phase primary lateral circuits, as well as the network of conductors and cables that operate at secondary voltage levels" and serve "small communities and subdivisions located within ComEd's service territory." In addition, the IIEC contends that "the secondary distribution sub-

system includes some facilities that may be energized at primary voltage levels, but which are used exclusively to serve secondary customers." IIEC Ex. 2.0, p. 8. Staff Ex. 2.0, p. 6.

Mr. Lazare noted in his testimony that the Company agrees that the secondary distribution would be larger under the IIEC's definitions of primary and secondary service, but it cannot determine how much larger it would be. ComEd argues that it would have to completely revamp its analysis of primary and secondary costs to conform costs to those definitions. ComEd Ex. 6.0, pp. 14-15. The Company does not see the point in performing such an analysis, arguing that reconfiguring the analysis along the lines suggested by Mr. Stowe may not produce "any appreciable change in the costs allocated to ComEd's 15 delivery classes because the number of primary customers is so small based on Mr. Stowe's interpretation." ComEd Ex. 6.0, p. 15. Staff Ex. 2.0, p. 6.

Mr. Lazare testified that the Company's response on this issue presents a problem because it represents a judgment that has yet to be tested. ComEd has already acknowledged it does not know the number of customers receiving service at the primary level and it would be reasonable to assume it does not know the rate classes under which these customers take service. Thus, it would be premature to conclude that the IIEC's definitions of primary and secondary service would have little impact on the overall allocations of system costs. Staff Ex. 2.0, p. 7.

Mr. Lazare recommended that this information shortfall should be addressed by requiring the Company in its next rate case to identify the non-high voltage customers on the system that receive service at the primary level. At a minimum, he found that this information is necessary to ensure that this customer group is not allocated costs for transformers that it does not need or use. Staff Ex. 2.0, p. 7.

Mr. Lazare testified that the IIEC goes on to argue that ComEd's study underestimates secondary costs by failing to recognize that many primary lines serve secondary customers only. IIEC witness Stowe states that he visually inspected approximately 100 locations on ComEd's system through the use of Google Earth and found that "ComEd does, in fact, install and maintain single- and multi-phase laterals that serve large networks of secondary customers, but do not appear to serve any primary customers whatsoever." Mr. Stowe contends that these configurations are not reflected in ComEd's analysis (IIEC Ex. 2.0, p. 23) and thereby implies that the Company's methodology understates secondary costs. Staff Ex. 2.0, pp. 7-8.

Staff found this argument by the IIEC difficult to assess because of a lack of evidence. IIEC witness Stowe claims this conclusion is based on on-line inspections of 100 different locations on the ComEd system. Nevertheless, the only record evidence he presents from this inspection is a single picture of an individual pole. IIEC Ex. 2.3. Thus, there is no way to independently verify that the other 99 locations Mr. Stowe inspected via Google Earth support his argument concerning primary and secondary costs. Staff Ex. 2.0, p. 8.

In sum, the fact that information is limited in some instances or not available in others impedes an assessment of either the Company's analysis of the primary and secondary cost issue or IIEC's alternative. Nevertheless, the task in this proceeding is to identify the most reasonable estimate of primary and secondary costs. Staff Ex. 2.0, pp. 8-9.

In summary, Staff's position is that the IIEC's argument is based on restrictive definitions of primary and secondary service which, based on information provided by ComEd, would limit primary service to approximately 300 customers. This appears to not only reduce the impact of the primary and secondary cost analysis within the cost of service study but also understate the number of customers who bypass the secondary distribution system and are not responsible for the associated costs. Staff Ex. 2.0, p. 9.

These deficiencies render IIEC's proposed definitions of primary and secondary service inappropriate for allocating the cost of service among customer classes.

C. Voltage Differentiated Rates

The IIEC recommends "that the Commission direct ComEd to provide voltage differentiated rates for all non-residential classes, for the Commission's consideration, in the context of its next delivery service rate case." IIEC Ex. 1.0, p. 4. The IIEC contends this would allow rates to be designed that would more accurately reflect the costs customers impose on the ComEd system. IIEC Ex. 1.0, p. 7. Staff Ex. 2.0, p. 10.

Staff's position is that such an approach would not appear to be useful given the information provided by Mr. Alongi about the number of ComEd customers receiving service at the primary level. If, as Mr. Alongi contends, approximately 300 non-high voltage customers receive service at the primary level, then everyone else is taking secondary service. If virtually all customers are taking service at the secondary level, it is not clear that reorganizing ComEd customers into voltage-based rate classes would be useful and the IIEC's proposal should therefore be rejected Staff Ex. 2.0, pp. 10-11.

D. Uncollectibles Costs

Staff in its brief and Mr. Lazare's testimony noted that the second change to ComEd's ECOSS required by the Commission pertaining to the allocation of uncollectibles costs presents a problem because it conflicts with cost causation principles. The Commission's Initiating Order stated that the ECOSS should allocate uncollectibles "across all residential classes". The Company interpreted this to mean that the existing method, which identifies and assigns historical uncollectibles costs on a class-by-class basis, should be replaced by an equal percentage of revenues allocator for all residential classes. Staff Ex. 1.0, p. 27.

Staff testified that the differences can be illustrated by an example where uncollectibles are assumed to account for 1.5% of revenues for the single family non-heating class and for 2% of revenues for all four residential classes collectively. Under the current approach, the single family non-heating class share of uncollectibles would be based on the 1.5% figure for the individual class. However, the new approach requested by the Commission would base uncollectibles for the single family non-heating class on that 2% level of uncollectibles incurred by all four residential classes. Staff Ex. 1.0, p. 27.

Staff's position is that this change would appear to conflict with cost causation which is based on the concept of charging customers for those costs they cause the utility to incur. If the contribution of each residential rate class to uncollectibles can be

identified, then those contributions would provide the foundation for a cost-based allocation. Otherwise, they will deviate from cost-causation principles as would happen if uncollectibles were allocated across all residential classes. Staff Ex. 1.0, p. 28.

E. Customer Care Costs

With regard to the issue of how Customer Care costs are allocated to ComEd ratepayers, Staff's position is that the evidence developed in this proceeding indicates that Company's proposed method of accounting for these costs presents the most reasonable approach. Without further evidence to the contrary, Staff recommends that methodology be continued.

Staff testified that the Company's review of these costs focused on O&M costs pertaining to customer service in excess of $100,000. The Company then sought to determine the magnitude of those costs that would be incurred for delivery service customers under three scenarios in which 1%, 10% and 100% of customers choose alternative suppliers. The degree to which customer care costs changed under these three scenarios is ComEd's measure of the relative cost of providing customer care to bundled and unbundled service. Staff Ex. 1.0, p. 28.

This approach found that billing and payment processing costs would be the same regardless of how many customers switched to alternative supply because the Company would have to complete all billing tasks for a customer regardless of supplier. ComEd Ex. 2.0, p. 10. A similar conclusion was reached for payment processing costs because the Company maintains that the same costs would be incurred whether the customer received bundled or unbundled service. ComEd Ex. 2.0, pp. 11-12. For revenue management which focuses on credit and collection policies, the Company drew the same conclusion noting, for example, that disconnections would proceed as before regardless of who supplies the power. ComEd Ex. 2.0, p. 13. Staff Ex. 1.0, p. 29.

Staff testified that the Company did find that certain costs for the Customer Contact Center would decline as the number of customers served by alternative service increased. ComEd determined that while about 65% of calls are storm and emergency-related and thereby independent of the number of customers receiving alternative supply, some of the remaining 35% of calls pertain to supply issues and would be expected to decline as more customers switch to alternative service. As a result, the Company estimated labor cost savings of $46,850 and $468,602 if 10% and 100%, respectively of bundled customers switched to alternative service. ComEd Ex. 2.0, pp. 15-16. Staff Ex. 1.0, p. 30.

Mr. Lazare further noted that ComEd finds that the Electric Supplier Services Department (ESSD) which interacts with the alternative suppliers would incur increased costs as customers gravitated to alternative suppliers. If the percentage of unbundled customers increased to 10%, ComEd expects $102,855 of additional labor costs for that department. The Company estimates that an additional $334,278 in labor costs to facilitate the movement of all customers to alternative service. Furthermore, ComEd claims a switching level above 10% would necessitate significant but unstated capital expenditures to automate the process. ComEd Ex. 2.0, pp. 17-18. The Company also indicates that increased switching would raise the level of Information Technology

spending and at 100% switching would require an additional $2,170,000 per year to be spent on an outside vendor for the overflow. ComEd Ex. 2.0, pp. 20-21. Staff Ex. 1.0, p. 30.

Mr. Lazare concluded that the evidence presented by ComEd suggests the Company does not incur significant differences in customer service costs for bundled and unbundled customers. If customer switching were to increase ten-fold from the current 1% to 10%, ComEd identifies only a few hundred thousand dollars in additional costs that would be expended or saved as a result. Only if more significant numbers migrated to alternative supply would the impact run into the millions of dollars. Thus, this does not appear to be a significant cost issue for ComEd ratepayers. Staff Ex. 1.0, p. 31.

Mr. Lazare also testified that the Company responded to the Commission's directive to examine whether usage and other non-customer factors contribute to "customer billing costs, data management costs, installation costs, service drops, and customer information costs". ComEd found that billing and data management consist large of fixed costs that vary with the number of customers. ComEd Ex. 2.0, pp. 24-25. The Company also found that customer installation costs are prompted by customer reports of non-outage related problems such as "momentary interruptions of service, power quality, power surges, flickering lights, arcing wires, cut for safety, tree on wire and low hanging service." ComEd Ex. 2.0, p. 26. The Company determined that customer usage levels had no bearing on the reporting and resolution of these problems. *Id.* ComEd also indicates that costs associated with investigating unmetered service are unrelated to usage. Rather, it reflects the cost of addressing the problem which the Company indicates is based on the number of customers with this problem. ComEd Ex. 2.0, pp. 26-27. The costs of providing temporary, relocation and revision services were found by ComEd to be driven by the volume of requests and nature of the work performed which ComEd considers to be customer, rather than usage, related. ComEd Ex. 2.0, p. 27. Staff Ex. 1.0, p. 32.

The Company examined service drops and found these costs are customer-related. Furthermore, the Company indicated that they are directly assigned to customer classes in the Company's ECOSS. ComEd Ex. 2.0, p. 28. ComEd also concluded that customer information costs which consist of market research, demand management and advertising are customer-related and, in fact, directly assigned to rate classes in ComEd's ECOSS. ComEd Ex. 2.0, p. 28.

Mr. Lazare found the Company's analysis of usage and customer costs to appear to be generally reasonable. For most of the costs identified the Company provides a reasonable explanation of why customers, rather than usage or some other factor, provides the best allocation approach. It should be remembered that the allocations of these costs on a customer basis have been presented and reviewed in previous rate cases and found to be reasonable from a cost standpoint. This lends further support to the Company's general conclusions on these costs. Staff Ex. 1.0, pp. 32-33.

Mr. Lazare did testify that he took exception to the Company's explanation of how service drops are determined presents a problem. Mr. Meehan states that "these costs are direct-assigned to customer classes" in the Company's ECOSS. Direct assignment assumes that costs incurred for each customer class can be separately identified and, thereby, assigned directly to the applicable class. Mr. Lazare testified that

it was his understanding that services costs are, instead, allocated among customer classes based upon a set of assumptions about the costs of installing services for each class on the ComEd system. Furthermore, the range of assumptions indicates that services allocations reflect other factors than simply the number of customers in each class. Staff Ex. 1.0, p. 33.

1. Staff's Position on REACT's Customer Care Arguments

Staff's position is that the arguments by REACT that the Company has improperly allocated Customer Care costs to delivery customers do not reflect the weight of evidence in this case and should be rejected. Staff IB, p. 30. As set forth in Staff's testimony it understanding is that REACT position is that costs such as "billing, payment processing, revenue management, and information technology" not only support the delivery function but serve the supply function as well. REACT EX. 2.0, p. 11. REACT contends that ComEd over-allocates these costs to distribution because it determines the share received by the supply function on a marginal cost basis. In this proceeding where embedded costs are used for allocation and rate design, REACT contends the supply component of these costs should be identified and allocated on an embedded cost basis as well. REACT EX. 2.0, p. 12. Based on this argument, REACT advocates reallocating almost $90 million in customer costs from the delivery to the supply function. REACT Ex. 2.0, p. 25. Staff Ex. 2.0, pp. 13.

Staff witness Lazare testified that the proposal presents problems. It would create rate disparities between sales and delivery customers that would be difficult to justify from a cost standpoint. For billing, the Company is understood to incur almost identical costs in preparing, sending and processing bills for bundled and unbundled customers. In both cases, the meter must be read, the bill prepared and mailed, the payment received and processed. Nevertheless, bundled and unbundled customers would pay significantly different billing costs according to REACT's analysis. Furthermore, a customer leaving bundled service would pay significantly less for billing services under REACT's proposal even if the underlying costs have not changed substantively. This would send an erroneous price signal concerning the relative cost of bundled and unbundled service. Staff Ex. 2.0, p. 14.

Staff argued in its initial brief, that the REACT proposal also appears to conflict with the Commission's determination of the level of credit for ratepayers if their bill comes from the RES under the Single Bill Option. That credit is "a relatively low number", 54 cents for residential customers and when the cost of postage is removed, the credit is "a little bit more than a dime". Thus, for single bill it would be reasonable assume that the Commission has concluded that "the bulk of billing costs should be with the delivery utility." Tr. 465-466. Staff IB, p. 31.

Finally, Mr. Lazare testified that the adoption of REACT's proposal in this case would set a precedent not only for other electric utilities in Illinois, but for all gas utilities as well. REACT's argument in this docket would appear to apply to all utilities where supply costs are significant relative to delivery costs and costs are generally allocated on an embedded cost basis. Adoption in this proceeding would create significant momentum for a proposal with significant drawbacks. Staff Ex. 2.0, p. 14.

F. Street Lighting Issues

With regard to the street lighting issues, Staff's position is that the Company appears to address the Commission's concern about whether the ECOSS "takes into account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities and allocates costs accordingly" in a reasonable manner. ComEd witness Heintz discusses the process by which ComEd's ECOSS allocates costs to the lighting class, indicating that lighting customers, like other customers, use the various components of the distribution system to receive electricity with the one difference being that the cost of fixtures is allocated to the "Fixture-included" lighting class. Thus, Mr. Heintz finds that appropriate costs are allocated to the lighting class. Staff Ex. 1.0, pp. 33-34.

Staff witness Lazare did take issue with Mr. Heintz's argument concerning the allocation of distribution costs to lighting and other classes. Mr. Heintz seeks to justify the Company's allocation of distribution substations and primary lines according to class noncoincident peaks (NCP) by citing the statement from the Commission Order in Docket No. 07-0566 that, "[t]he records shows that distribution facilities must be planned and built to meet customers' maximum loads regardless of when those may occur." ComEd Ex. 3.0, p. 12. Staff Ex. 1.0, p. 34.

Mr. Lazare testified in response that the evidence in this docket calls into question the use of the NCP for distribution substations and primary lines. Distribution substations and primary lines serve not just the lighting class, but other classes as well and are designed to meet the peak demands of customers in multiple classes, rather than the demands of customers in an individual class. Thus, it is more likely that demands for distribution substations and primary lines will coincide with system peak demand, than the peak demand of lighting customers which occurs during off-peak hours. Furthermore, when the system is peaking, lighting demands are low the lights go on in the dark. In other words, lighting customers use less when capacity is tight and more when spare capacity is available. Staff Ex. 1.0, pp. 34-35. In Mr. Lazare's opinion this is a clear benefit to the system from a cost standpoint that is not recognized in ComEd's allocation methodology for distribution substations and primary lines. ComEd allocates these costs according to the NCP which uses the peak demand for each class regardless of when it occurs. So the lighting class receives no credit in the ECOSS for its off-peak demands despite the resulting system savings. Staff Ex. 1.0, p. 35.

Mr. Lazare added that this cost inequity should be addressed by allocating distribution substations and primary lines by class contributions to coincident peak demands. This would recognize that the size of these facilities is more clearly driven by system peak demands than by the demands of individual rate classes. Staff Ex. 1.0, p. 35.

Staff argued in its initial brief that ComEd responds to the CP proposal by contending it is driven by an "alleged 'cost inequity'" for the lighting class. The Company further argues that the CP approach reflects the unsupported assumption that demands on substations and primary lines are likely to be greatest when demand on the system is at a peak. The Company also notes that precedent for ComEd favors the NCP peak

approach while Staff's alternative CP approach is encumbered by an alleged lack of precedent. The Company faults Staff for only identifying two utilities outside Illinois that use the coincident peak allocator for substations and primary lines in response to discovery. ComEd Ex. 7.0, pp. 4-5.

Mr. Lazare testified that the fundamental flaw in the Company's position is a failure to present any arguments why the NCP is more appropriate for substations and primary lines from a cost standpoint than a CP approach. Cost should be the determining issue in this discussion and on this subject ComEd has nothing to say. Staff Ex. 2.0, p. 20.

He explained that the Company's complaint that Staff's argument on this issue revolves around the lighting class is baseless. The lighting class is an appropriate focus for the discussion because it illustrates the shortcomings of an NCP allocator for these costs. Individual substations and primary lines are not constructed to serve customers within any single class but rather to serve customers from numerous classes. This means that a substation or primary line is not sized to meet the demands of any single class, but rather the collective demands of customers from numerous classes. Lighting is relevant to the discussion issue because its peak demands generally do not coincide with peak demands for the system as a whole. Thus, peak lighting demands should not play the same role in shaping substation and primary line investments as the demands by classes with higher demands at the time of system peak demands. This is why CP demands, rather than noncoincident peak demands, provide the most reasonable basis for allocating these costs. Staff Ex. 2.0, pp. 20-21.

The Company also incorrectly claims a lack of support in this docket for the assumption that demands on substations and primary lines are likely to be greatest when demand on the system is at a peak. Staff has explained why the collective peak demands of multiple rate classes is better than the noncoincident peak demands of individual rate classes more accurately reflects the incurrence of these costs. The Company can continue to insist without evidence that Staff's assumption is incorrect, but it has no basis for arguing it lacks support. Staff Ex. 2.0, p. 21.

In sum, the Company appears to believe that precedent is reason enough on its own to adopt the Company's proposed allocator for substations and primary lines. However, the theme of the current proceeding initiated by the Commission is to set aside precedent and examine whether the Company's cost of service study is truly reflective of costs. In this docket with the Commission clearly seeking to take a fresh look at the entire cost of service, precedent should not derail the Commission from adopting a more cost-based allocation of substation and primary line costs. Staff Ex. 2.0, pp. 21-22.

Finally as Staff argued in its initial brief, it should be noted that ComEd in surrebuttal insists without explanation that it "designs its primary lines and substations based on the noncoincident peak that occurs on those facilities, not the system coincident peak." ComEd Ex. 10.0, p. 27. Staff argued in brief that was an unsupported claim that fails to explain why primary lines and substations that serve the collective demands of multiple classes would take into account the individual peaks of any one class, whether it be residential space heating or lighting in determining the size of plant to be built.

G. Services Costs

Staff position is that the Company's revised allocator for services costs set forth in ComEd witness Alongi's rebuttal testimony should be accepted by the Commission. The revision stems from Staff's review of the Company's existing services allocator which identified some errors in the analysis. Staff set forth in its initial brief that the Company has fixed these errors and as a result the services allocations for individual rate classes have changed. This, in turn, changes the overall allocation of system costs to ComEd's customer classes. Staff Ex. 2.0, p. 19.

Mr. Lazare testified that the Company develops its allocator by first determining the typical cost of a new service for a customer in each class and then multiplying that typical cost by the number of customers in that class. The first problem with ComEd's approach is that it overstated the percentage of residential services on the ComEd system that are underground. Based on recent trends, the allocator assumes 94% of single family services to be underground, however, a follow-up query of the Company's CEGIS/Passport and CIMS systems found that only 36% of all single family services are underground and 64% are overhead. Because the cost of underground services is higher, the Company's allocator overstates both the typical service cost for residential customers and their share of these costs. Staff Ex. 1.0, pp. 36-37.

Mr. Lazare further testified that the cost of connecting services to poles was inappropriately calculated on a per-foot, rather than a per-customer, basis. Lug and connection cost estimate also failed to properly account for three-conductor installations on residential services. The Company's revised allocator corrects each of these errors. Staff Ex. 1.0, p. 37.

Mr. Lazare explained that changes were also made to non-residential services. The adjustments include the further distribution of the Small Load Delivery Class into single-phase and three-phase services based on the distribution of meter types installed for customers in that class (42.6% single-phase, 57.4% three-phase). ComEd also estimated the number of customers per service connection for the Watt-hour and Small Load delivery classes by reviewing the premises address for accounts in those classes and determining an approximate number of accounts per address. For the Extra Large Load delivery class the average load per service was lowered to remove accounts over 10 MW. These changes improve the accuracy of ComEd's services allocator and should be adopted in this case. Staff Ex. 1.0, pp. 37-38.

H. Class Revenue Allocations

With regard to class revenue allocations, Staff's position is that if the Commission decides to adopt a revised set of class revenue allocations in this case, the Company's proposed approach should be revised. Staff witness Lazare testified that first, the cost foundation presented in ComEd's direct filing should be replaced by a cost study that includes the revised services allocator developed by ComEd; the identification of $4,723,630 of secondary distribution costs for account 361; and the allocation of substation and distribution lines according to coincident, rather than non-coincident, peak demands. Staff Ex. 1.0, p. 40.

He testified next that any effort to recognize bill impacts in class revenue allocations should not be based on the mitigation method employed by the Commission in Docket No. 07-0566. The employment of this approach would lead to rate reductions for those customer classes who are most deficient in recovering their associated cost of service. That includes the Extra Large Load, Railroad, and High Voltage delivery classes who currently recover 57.8%, 60.3% and 69.3% of their costs, respectively. ComEd Ex. 1.1A, pp. 2-3. That result would clearly conflict with cost causation principles. Staff Ex. 1.0, pp. 39-41.

He testified that a more reasonable alternative would be to move revenues for all rate classes by an equal percent from current rates to rates that fully recover their applicable cost of service. Staff Schedule 1.02 attached to Staff Ex. 1.0 presents a set of class revenue allocations that move 10, 20 and 50% toward costs based upon the cost study presented by the Company in this proceeding. Staff Ex. 1.0, p. 41.

Staff's position is that it would not be reasonable to make any changes to design of the individual charges that customers pay. The Company's rate case concluded in September of last year so the rates have only been in effect for about a year. It would be disruptive to ratepayers to make a further change at this time.

In addition, while the Commission has stated a desire to examine cost of service issues in its initiating order, it has not expressed an interest in changing ComEd's rate design. Thus, the Commission can assume to be satisfied with the rate design approach it adopted in Docket No. 07-0566. Staff Ex. 1.0, pp. 41-42.

I. Future Workshops

Staff's position is that the evidence in this case clearly demonstrates that the Company needs to refine its analysis of primary and secondary costs through the use of direct observation to test engineering judgments before its next rate case. The objective should be to develop a plan for visual checks that will not prove unduly burdensome for ComEd but still improve the accuracy of the estimates of primary and secondary costs. Staff Ex. 2.0, p. 19.

Staff's position is that the best way to address this and other issues on an ongoing basis is to convene a workshop process within three months after the passage of the Final Order in this case to identify potential improvements in the Company's secondary and primary cost analysis. The workshop(s), would: (1) be led jointly by the Company and Staff, (2) be open to all interested parties, and (3) examine issues such as the use of direct observations in developing estimates of primary and secondary costs and future data gathering efforts to ensure a more accurate differentiation of primary and secondary service costs. The workshop(s) would also take up issues other parties in this proceeding would wish to raise which are not resolved by the Final Commission Order in this proceeding. Other issues beyond those raised in this case would not be addressed in order to provide some assurance that the workshop process is not an open ended one. React Cross Ex. Lazare #14; Tr. 462-463.

II. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

JOHN C. FEELEY
CARMEN L. FOSCO
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
jfeeley@icc.illinois.gov
cfosco@icc.illinois.gov

Counsel for the Staff of the
Illinois Commerce Commission

December 17, 2009